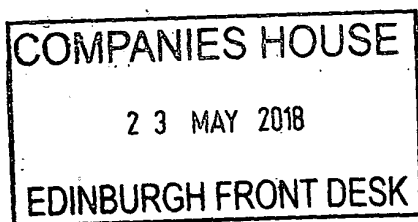


HCS Control Systems Group Limited

Annual report and financial statements

for the year ended 31 December 2017

Registered number: SC427652



HCS Control Systems Group Limited

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HCS Control Systems Group Limited

Officers and professional advisers

Directors

K Balfour
J Gardiner
N McGuinness

Company secretary

Burness Paul LLP

Registered Office

Unit V2
Viewfield Road
Viewfield Industrial Estate
Glenrothes
KY6 2QX

Registered Number

SC427652

Independent auditor

Deloitte LLP
Aberdeen
United Kingdom

HCS Control Systems Group Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2017. HCS Control Systems Group Limited ("the Company") was incorporated on 4 July 2012. On 14 June 2013, the Company acquired 100% of the issued share capital of HCS Controls Systems (Holdings) Limited. Prior to this date the Company did not trade.

Principal activities

The principal activity of HCS Control Systems Group Limited is a holding company.

The principal activity of the Company and its subsidiaries ("the Group") is that they specialise in the design, in-house manufacture, assembly and test and servicing of equipment for the subsea oil and gas industry worldwide.

Results and business review and key performance indicators

These financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102") including comparatives.

The directors consider turnover, operating and net profit to be key performance indicators in their ability to monitor the group's strategic and operational effectiveness.

The loss for the year before taxation was £3,946,288 (2016: loss £4,727,593).

Principal risks and uncertainties

The group faces the economic risks associated with the oil sector, particularly the oil price and level of offshore exploration. These risks have continued into 2018 but the market is showing signs of improvement.

Future developments

2017 was very much "a year of two halves". During the first half of 2017 the Group continued to incur losses and had to make further staff redundancies. In the second half of the year the Group moved back into a modest level of profitability.

Given the increased levels of activity in the market, the Directors are quietly confident that this profitability will gradually improve through the course of 2018.

Events after the balance sheet date

On 31 January 2018 a subsidiary company, HCS Aberdeen Limited, was incorporated. The Group owns 100% of the share capital of the new subsidiary.

Going concern

The Group prepares an annual budget including a full profit and loss, cash flow and balance sheet projection. The Group prepares reforecasts regularly throughout the year.

The Group benefits from supportive shareholders who have provided a mixture of debt and equity. Additionally the Group has a strong relationship with our bank.

The projections for the Group for at least 12 months from the signing of the financial statements give confidence to the Board that the Group will be able to meet its liabilities as they fall due from their existing facilities or those they believe will be made available to them during that period.

As a result the Group's financial statements have been prepared on a going concern basis.

HCS Control Systems Group Limited

Strategic report (continued)

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including foreign currency exposure, credit risk and liquidity risk.

Foreign currency risk

We minimise our foreign currency exposure by billing the vast majority of our clients in Sterling thereby eliminating the exposure to currency fluctuation. The cost base of the Group is almost exclusively in Sterling.

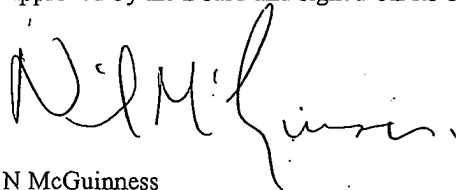
Credit risk

The Group's principal credit risk is in trade debtors. The Group's clients tend to be large multi-nationals with high credit ratings. At times there is a concentration risk where debts are due from a small number of large customers. An appropriate provision is made in the accounts where the Group believe there is a question over the recoverability of the debt.

Liquidity risk

The Group forecasts future cashflows to ensure sufficient facilities are available to support on-going operations. Liquidity risk can increase if a large customer delays any payment. The Group maintains vigilance in credit control and reforecast regularly, to ensure projections remain up to date.

Approved by the Board and signed on its behalf by:



N McGuinness
Director
18 May 2018

HCS Control Systems Group Limited

Directors' report

The directors present their annual report with the consolidated financial statements of the Group for the year ended 31 December 2017.

Directors

The directors who served during the year and to the date of this report, unless noted otherwise were:

K Balfour
J Gardiner
A Kitchener (resigned 30 April 2017)
B Lestranger (resigned 31 May 2017)
N McGuinness

Dividends

No dividends were paid in the year (2016: £nil).

Future developments, going concern, financial risk objectives and policies and events after the balance sheet date

Details of future developments, going concern, financial risk objectives and policies and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 2-3 and form part of this report by cross-reference.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

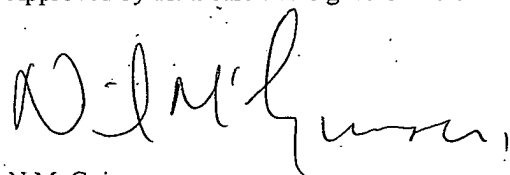
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor's area aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP has indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



N McGuinness
Director
18 May 2018

HCS Control Systems Group Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of HCS Control Systems Group Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of HCS Control Systems Group Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated profit and loss account and statement of comprehensive loss;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of HCS Control Systems Group Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of HCS Control Systems Group Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters

L Cowie /

Lyn Cowie, CA (Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
21 May 2018

HCS Control Systems Group Limited

Consolidated profit and loss account and statement of comprehensive loss For the year ended 31 December 2017

	Note	2017 £	2016 £
Turnover	3	5,045,457	3,859,804
Cost of sales		(4,268,645)	(3,590,619)
Gross profit		776,812	269,185
Administrative expenses - recurring		(2,673,169)	(3,164,891)
Administrative expenses – exceptional		(447,540)	(233,542)
		(2,343,897)	(3,129,248)
Other operating income		816	1,656
Operating loss		(2,343,081)	(3,127,592)
Interest payable and similar charges	4	(1,603,207)	(1,600,001)
Loss on ordinary activities before taxation	5	(3,946,288)	(4,727,593)
Tax (charge)/credit on loss on ordinary activities	8	(1,337)	212,137
Loss for the financial year		(3,947,625)	(4,515,456)
Other comprehensive loss			
Foreign currency translation		(15,983)	6,830
Total other comprehensive (loss)/income		(15,983)	6,830
Total comprehensive loss for the year		(3,963,608)	(4,508,626)

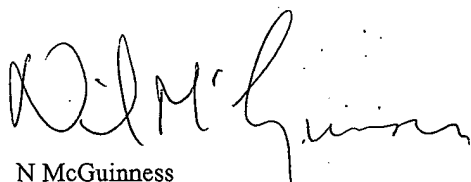
All of the results for the current year and prior year are derived from continuing operations.

HCS Control Systems Group Limited

Consolidated balance sheet As at 31 December 2017

	Notes	2017 £	2016 £
Fixed assets			
Intangible assets	10	634,903	2,020,111
Tangible assets	11	743,518	1,027,246
		<u>1,378,421</u>	<u>3,047,357</u>
Current assets			
Stocks	13	204,602	162,924
Debtors	14	2,400,582	1,835,896
Cash at bank and in hand		592,558	1,377,236
		<u>3,197,742</u>	<u>3,376,056</u>
Creditors: amounts falling due within one year	15	<u>(3,123,085)</u>	<u>(1,681,932)</u>
Net current assets		<u>74,657</u>	<u>1,694,124</u>
Total assets less current liabilities		<u>1,453,078</u>	<u>4,741,481</u>
Creditors: amounts falling due after more than one year	16	<u>(12,529,543)</u>	<u>(11,856,338)</u>
Net liabilities		<u>(11,076,465)</u>	<u>(7,114,857)</u>
Capital and reserves			
Called-up share capital	17	22,504	22,502
Share premium account	17	1,061,002	1,059,004
Foreign currency translation reserve	17	(9,153)	6,830
Profit and loss account	17	<u>(12,150,818)</u>	<u>(8,203,193)</u>
Shareholders' deficit		<u>(11,076,465)</u>	<u>(7,114,857)</u>

The financial statements of HCS Control Systems Group Limited (registered number SC427652) were approved by the Board of Directors and authorised for issue on 18 May 2018. They were signed on behalf of the Board by:

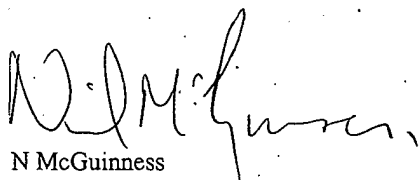

N McGuinness
Director

HCS Control Systems Group Limited

Company balance sheet As at 31 December 2017

	Notes	2017 £	2016 £
Fixed assets			
Investments	12	4,000,000	4,000,000
Current assets			
Debtors	14	834,275	759,303
Cash at bank and in hand		1,917	1,904
		836,192	761,207
Creditors: amounts falling due within one year	15	(1,396,176)	(820,522)
Net current liabilities		(559,984)	(59,315)
Total assets less current liabilities		3,440,016	3,940,686
Creditors: amounts falling due after more than one year	16	(12,508,729)	(11,576,338)
Net liabilities		(9,068,713)	(7,635,652)
Capital and reserves			
Called-up share capital	17	22,504	22,502
Share premium account	17	1,061,002	1,059,004
Profit and loss account	17	(10,152,219)	(8,717,158)
Shareholders' deficit		(9,068,713)	(7,635,652)

The financial statements of HCS Control Systems Group Limited (registered number SC427652) were approved by the Board of Directors and authorised for issue on 18 May 2018. They were signed on behalf of the Board by:


N McGuinness
Director

HCS Control Systems Group Limited

Consolidated statement of changes in equity For the year ended 31 December 2017

Equity attributable to equity shareholders of the Group

	Called-up share capital £	Share premium account £	Foreign currency translation reserve £	Profit and loss account £	Total £
At 31 December 2015	22,502	1,059,004	-	(3,687,737)	(2,606,231)
Loss for the financial year	-	-	-	(4,515,456)	(4,515,456)
Other comprehensive income	-	-	6,830	-	6,830
Total comprehensive loss	-	-	6,830	(4,515,456)	(4,508,626)
At 31 December 2016	22,502	1,059,004	6,830	(8,203,193)	(7,114,857)
Issue of share capital	2	1,998	-	-	2,000
Loss for the financial year	-	-	-	(3,947,625)	(3,947,625)
Other comprehensive loss	-	-	(15,983)	-	(15,983)
Total comprehensive loss	-	-	(15,983)	(3,947,625)	(3,963,608)
At 31 December 2017	22,504	1,061,022	(9,153)	(12,150,818)	(11,076,465)

HCS Control Systems Group Limited

Company statement of changes in equity For the year ended 31 December 2017

Equity attributable to equity shareholders of the Company

	Called-up share capital £	Share premium account £	Profit and loss account £	Total £
At 31 December 2015	22,502	1,059,004	(3,254,611)	(2,173,105)
Loss for the financial year	-	-	(5,462,547)	(5,462,547)
Total comprehensive loss	-	-	(5,462,547)	(5,462,547)
At 31 December 2016	22,502	1,059,004	(8,717,158)	(7,635,652)
Issue of share capital	2	1,998	-	2,000
Loss for the financial year	-	-	(1,435,061)	(1,435,061)
Total comprehensive loss	-	-	(1,435,061)	(1,435,061)
At 31 December 2017	22,504	1,061,002	(10,152,219)	(9,068,713)

HCS Control Systems Group Limited

Consolidated cash flow statement For the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash flows from operating activities	18	(172,811)	1,950,246
Cash flows from investing activities			
Purchase of tangible assets		(130,882)	(44,402)
Proceeds on disposal of tangible assets		10,965	-
Issue of new shares		2,000	-
Net cash flows used in investing activities		(117,917)	(44,402)
Cash flows from financing activities			
Interest paid		(60,216)	(245,779)
Repayment of bank loans		(420,000)	-
Repayment of obligations under finance lease		(13,734)	(39,977)
Net cash flows used in financing activities		(493,950)	(285,756)
Net (decrease)/increase in cash and cash equivalents		(784,678)	1,620,088
Cash and cash equivalents at beginning of year		1,377,236	(242,852)
Cash and cash equivalents at end of year		592,558	1,377,236
Reconciliation to cash and cash equivalents			
Cash at bank and in hand		592,558	1,377,236

HCS Control Systems Group Limited

Notes to the financial statements

For the year ended 31 December 2017

1. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and prior year.

a. General information and basis of accounting

HCS Control Systems Group Limited is a company limited by shares incorporated in Scotland under the Companies Act. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the strategic report on page 2.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of HCS Control Systems Group Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in pounds sterling.

HCS Control Systems Group Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments and related party transactions within the group.

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

c. Going concern

After making enquiries, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for a period of at least 12 months from the signing of the financial statements. Accordingly, they adopt the going concern basis in preparing the financial statements.

d. Stocks

Raw materials are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving stock. Accounting of work in progress is covered under Long term contracts (paragraph k below).

e. Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 5 years. Provision is made for any impairment.

f. Intangible assets – patents and trademarks

Patents and trademarks are included at cost and depreciated in equal annual instalments over a period of up to five years which is their estimated useful economic life. Provision is made for any impairment.

g. Development costs

Development expenditure is written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Significant accounting policies (continued)

h. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows:

Leasehold improvements	over period of lease
Plant and machinery	25% on reducing balance
Office equipment	25% on reducing balance
Motor vehicles	25% on reducing balance

i. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

j. Turnover

Turnover represents the value of goods and services provided in the normal course of business, net of Value Added Taxes and discounts. Turnover is recognised when goods are sold, being the point at which risks and rewards of ownership are transferred to the customer. Turnover is recognised on long-term contracts as set out in the respective accounting policy below.

k. Long-term contracts

Turnover is calculated by reference of the value of work performed to date as a proportion of the total contract value. If the final outcome can be assessed with reasonable certainty, profit is recognised on long-term contracts by including it in the profit and loss account turnover and related costs, as contract activity progresses.

Where the invoiced value of work performed on a long-term contract is less than the actual value of work performed by reference to the proportion of overall estimated contract cost incurred, the difference is recorded as amounts recoverable on long-term contracts and included within debtors due within one year.

Where invoices issued to customers exceed the value of the work performed on a long-term contract the excess amounts are recorded as amounts payable under long-term contracts and included within creditors falling due within one year.

Where actual cost spent as at year end is greater than cost estimated as a proportion of the total contract value, work in progress ("WIP") balance and accrued costs are recognised within inventory and creditors falling due within one year correspondingly.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

l. Employee benefits

The group operates a defined contribution pension scheme. Contributions payable to the pension scheme are charged to the profit and loss account in the period to which they relate. Differences between contributions payable in the year and contributions actually paid are included as a creditor and paid in arrears.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Significant accounting policies (continued)

m. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

n. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Assets held by the Group under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised directly to the statement of comprehensive income and are classified as finance costs.

o. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, account receivables, borrowings, account payables and other financial liabilities.

When a financial asset or financial liability is recognised initially, it is measured at transaction price unless the arrangement constitutes, in effect, a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

The Group has no financial instruments that upon their initial recognition are designated as at fair value through profit or loss. Therefore, subsequent to initial recognition financial asset and liabilities of the Group are measured at amortised cost using the effective interest method, unless they are classified as payable or receivable within one year on initial recognition, in which case they are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

The accounting policies for key financial instruments held by the Group are set out below in this Note.

Accounts receivable

Accounts receivable held by the Group, are non-interest bearing and current, and are stated at transaction price, which approximate their fair value at initial recognition. Appropriate allowances for estimated irrecoverable amounts are recognised subsequent to initial recognition in the profit and loss statement when there is objective evidence that the asset is impaired.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash with banks, and deposits with an original maturity of less than three months.

Bank loans, loan notes and preference shares ("Borrowings")

Borrowings are initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument which is normally approximated by the amount of net proceeds received, and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds and the settlement or redemption amount is recognised over the term of the borrowings and recorded as finance costs.

Trade and other accounts payable

Accounts payable are short term and are measured at the undiscounted amount of the cash or other consideration expected to be paid which normally constitute a transaction price.

p. Investments

Investments in subsidiaries are valued at cost less provision for impairment.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no critical judgements, apart from those involving estimations (that are dealt with separately below), that the directors made in the process of applying the group's accounting policies.

Key source of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £634,903. No impairment loss was identified in prior or current years.

Impairment of investment in subsidiary

Determining whether investments are impaired requires an estimations of the investments' value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate the present values. The carrying amount of the investment in HCS Control Systems (Holdings) Limited at the balance sheet date was £4,000,000 which includes an impairment recognised in the prior period of £4,117,777.

Percentage of completion of long term contracts

As described in note 1 the directors of the Company estimate the percentage stage of completion of long term contracts to determine revenue, amounts recoverable on contract, work in progress as well as cost accrued on these contracts during the year. In making their judgement on the percentage of a contract completion, directors assess costs to complete as the proportion of the total costs budgeted as well as time patterns of a contract execution.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Turnover

Turnover represents amounts derived from the contracts for provision of goods which fall within the Group's principal activity, excluding Value Added Taxes.

No analysis of turnover is provided as the directors believe this would be prejudicial to the best interests of the Group.

4. Interest payable and similar charges

	2017 £	2016 £
10% Secured loan notes 2018 interest	610,600	610,600
10% Unsecured loan notes 2018 interest	97,075	97,075
10% C and E shares yield	196,400	196,400
10% Secured loan notes premium	537,457	502,591
Amortisation of deal fees	101,459	101,459
Bank interest and similar charges	59,272	90,121
Hire purchase interest	944	1,755
	<u>1,603,207</u>	<u>1,600,001</u>

5. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2017 £	2016 £
Amortisation of goodwill (note 10)	1,385,208	1,385,208
Amortisation of development costs (note 10)	-	79,937
Depreciation of tangible fixed assets (note 11)	411,992	410,447
Operating lease rentals	152,053	148,346
Foreign exchange gain	-	(7,776)
Loss on disposal of fixed assets	8,244	5,039
	<u>1,957,497</u>	<u>1,991,263</u>

The exceptional costs arise from redundancy expenses and are considered exceptional by nature.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

5. Loss on ordinary activities before taxation (continued)

The analysis of the auditor's remuneration is as follows:

	2017 £	2016 £
Fees payable to the Company's auditor and its associates for the audit of the company's annual accounts	20,000	20,000
Fees payable to the Company's auditor and its associates for other services to the Group		
Tax services	14,000	8,250
Total fees	34,000	28,250

The fees above are the total fees paid for the audit of the entire group. In the opinion of the directors, it is not practical to apportion audit or tax fees between group companies.

6. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2017 Number	2016 Number
Directors	4	5
Management and administration staff	20	25
Workshop staff	19	30
	43	60

Their aggregate remuneration including directors comprised:

	2017 £	2016 £
Wages and salaries	1,668,278	2,177,060
Social security costs	182,477	239,181
Pension costs	37,257	54,392
	1,888,012	2,470,633

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

7. Directors' remuneration and transactions

	2017 £	2016 £
Directors' remuneration		
Emoluments	194,060	366,154
Compensation for loss of office	77,201	-
	<u>271,261</u>	<u>366,154</u>

	2017 £	2016 £
Remuneration of the highest paid director:		
Emoluments	35,916	144,018
Compensation for loss of office	77,201	-
	<u>113,117</u>	<u>144,018</u>

8. Tax on loss on ordinary activities

The tax charge/(credit) comprises:

	2017 £	2016 £
Current tax on loss on ordinary activities		
Adjustment in respect of prior periods	(188)	(81,549)
Foreign tax suffered	1,525	14,976
Total current tax	<u>1,337</u>	<u>(66,573)</u>
Deferred tax		
Origination and reversal of timing differences	-	(56,231)
Effect of changes in tax rate	-	5,623
Adjustment in respect of prior periods	-	(94,956)
Total deferred tax	<u>-</u>	<u>(145,564)</u>
Total tax charge /(credit) on loss on ordinary activities	<u>1,337</u>	<u>(212,137)</u>

Further reductions to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2016 on 15 September 2016. These reduce the main rate to 17% from 1 April 2020 and this rate has been used to calculate the deferred tax in the financial statements.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

8. Tax on loss on ordinary activities (continued)

The differences between the total tax charge/(credit) shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2017 £	2016 £
Group loss on ordinary activities before tax	(3,946,288)	(4,727,593)
Tax on Group loss on ordinary activities at standard UK corporation tax rate of 19.25% per cent (2016: 20%)	(759,660)	(945,519)
Effects of:		
- Income not taxable	(294)	(2,995)
- Expenses not deductible for tax purposes	590,283	585,040
- Tax rate changes	-	5,623
- Adjustments to tax charge in respect of prior periods	(188)	(176,505)
- Effects of overseas tax rates	1,525	14,976
- Tax losses carried forward	-	193,943
- Deferred tax not provided	169,671	113,300
Group total tax charge/(credit) for year	1,337	(212,137)

In addition there is an unrecognised deferred tax asset of £266,755 (2016: £121,958) relating to losses £205,922 (2016: £103,144), fixed asset timing differences £59,807 (2016: £17,704) and short term timing differences £1,026 (2016: £1,110). The deferred tax asset is unrecognised due to the uncertainty over timing of future profits against which to relieve the assets.

9. Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the parent Company was £1,435,061 (2016: £5,462,547). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

10. Intangible fixed assets

Group	Development costs £	Goodwill £	Total £
Cost			
At 1 January 2017 and 31 December 2017	246,039	6,926,056	7,172,095
Accumulated amortisation			
At 1 January 2017	246,039	4,905,945	5,151,984
Charge for the year	-	1,385,208	1,385,208
At 31 December 2017	246,039	6,291,153	6,537,192
Net book value			
At 31 December 2017	-	634,903	634,903
At 31 December 2016	-	2,020,111	2,020,111

Amortisation of intangible fixed assets is included in administrative expenses.

11. Tangible fixed assets

Group	Leasehold improvements £	Plant and machinery £	Office equipment £	Motor vehicles £	Total £
Cost					
At 1 January 2017	148,660	1,615,639	210,554	21,297	1,996,150
Additions	53,987	17,244	19,814	75,336	166,381
Disposals	-	-	(1,213)	(61,415)	(62,628)
Foreign exchange movements	-	16,592	-	-	16,592
At 31 December 2017	202,647	1,649,475	229,155	35,218	2,116,495
Accumulated depreciation					
At 1 January 2017	111,263	703,626	144,582	9,433	968,904
Charge for the year	41,172	334,607	25,555	10,658	411,992
Disposals	-	-	(517)	(7,402)	(7,919)
At 31 December 2017	152,435	1,038,233	169,620	12,689	1,372,977
Net book value					
At 31 December 2017	50,212	611,242	59,535	22,529	743,518
At 31 December 2016	37,397	912,013	65,972	11,864	1,027,246

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

11. Tangible fixed assets (continued)

Leased assets included above:

Net book value

At 31 December 2017	31,555	-	-	-	31,555
At 31 December 2016	-	-	-	11,219	11,219

12. Fixed asset investments

	2017 £
Cost	
At 1 January and 31 December	8,117,777
Provision for impairment	
At 1 January and 31 December	(4,117,777)
Net book value	
At 31 December 2017	4,000,000

Principal Company's investments

The company has investments in the following subsidiary undertakings which principally affected the profits or net assets of the Group.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	Holding	Holding %
HCS Control Systems (Holdings) Limited +	Scotland	Holding Company	Ordinary shares	100
HCS Control Systems Limited	Scotland	Equipment design, manufacturing and testing	Ordinary shares	100
HCS Control Systems LLC	USA	Equipment design, manufacturing and testing	Ordinary shares	100
HCS Nuclear Limited	Scotland	Dormant company	Ordinary shares	100

+ Held directly by HCS Control Systems Group Limited.

The registered address of HCS Control Systems (Holdings) Limited, HCS Control Systems Limited and HCS Nuclear Limited is Unit V2 Viewfield Road, Viewfield Industrial Estate, Glenrothes, KY6 2QX.

The registered address of HCS Control Systems LLC is 1675 South State St, Suite B, Dover, Delaware 19901.

During the year the Group invested in a new subsidiary registered in Scotland, HCS Nuclear Limited, investing £100 as share capital, acquiring 100% of the issued shares and voting interests.

The new subsidiary had not commenced trading and had no assets and liabilities at the date of acquisition/investment.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

13. Stocks

	2017	2016
Group	£	£
Raw materials and consumables	129,416	114,800
Work in progress	75,186	48,124
	<u>204,602</u>	<u>162,924</u>

14. Debtors

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade debtors	656,362	1,135,434	-	-
Amounts owed by Group undertakings	-	-	804,162	730,039
Amounts recoverable on contracts in progress	1,545,427	520,547	-	-
Prepayments and accrued income	67,912	97,228	24,849	29,264
Other taxation	53,350	8,470	-	-
Corporation tax	72,267	72,267	-	-
Other debtors	5,264	1,950	5,264	-
	<u>2,400,582</u>	<u>1,835,896</u>	<u>834,275</u>	<u>759,303</u>

15. Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Bank loans (note 16)	280,000	420,000	-	-
Hire purchase contracts (note 16)	11,178	4,724	-	-
10% Secured loan notes 2018 interest (note 16)	1,376,778	766,178	1,376,778	766,178
Trade creditors	688,806	299,322	8,398	-
Social security and other taxes	44,997	58,966	-	54,344
Other creditors	11,120	17,785	-	-
Accruals and deferred income	710,206	114,957	11,000	-
	<u>3,123,085</u>	<u>1,681,932</u>	<u>1,396,176</u>	<u>820,522</u>

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

16. Creditors: amounts falling due after one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
10% Secured loan notes 2018	6,065,877	5,978,335	6,065,877	5,978,335
10% Secured loan notes 2018 premium	2,178,976	1,641,519	2,178,976	1,641,519
10% Unsecured loan notes	964,366	950,449	964,366	950,449
10% Unsecured loan notes 2018 accrued interest	441,756	344,681	441,756	344,681
10% C and E shares	1,964,000	1,964,000	1,964,000	1,964,000
10% C and E shares yield	893,754	697,354	893,754	697,354
Bank loans	-	280,000	-	-
Hire purchase contracts	20,814	-	-	-
	<u>12,529,543</u>	<u>11,856,338</u>	<u>12,508,729</u>	<u>11,576,338</u>

Borrowings are repayable as follows:

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Borrowings				
Within one year (Note 15)	1,667,956	1,190,902	1,376,778	766,178
Between two and five years	12,555,231	12,004,299	12,555,231	11,724,299
	<u>14,223,187</u>	<u>13,195,201</u>	<u>13,932,009</u>	<u>12,490,477</u>
Unamortised deal fees	(46,502)	(147,961)	(46,502)	(147,961)
	<u>14,176,685</u>	<u>13,047,240</u>	<u>13,885,507</u>	<u>12,342,516</u>

Unamortised deal fees of £46,502 are expected to be amortised over the next year.

The bank loan creditor is secured by a floating charge over all assets of the subsidiary company which ranks above the bond and floating charge for the 10% Secured loan notes 2018. The facility charges interest at a rate of 2.75% above LIBOR.

The 10% Secured loan notes 2018 bear interest at 10% and are repayable on 31 March 2020 along with accrued premium and any unpaid interest. Accrued interest is payable on 30 June and 31 December each year if the group has sufficient funds to make the payments. The premium accrues to 40% of the principal value of secured loan notes and is repayable upon redemption. The loan notes are secured by cross-guarantees between the subsidiaries of the group and the parent company with bonds and floating charges over all the assets of the subsidiary companies.

The 10% Unsecured loan notes 2018 bear interest at 10% and are repayable at the earlier of an exit or 31 March 2020 along with accrued interest. Interest is payable upon redemption.

The C and E shares carry a fixed annual yield of 10% which does not compound. The C and E shares are due for redemption at par upon exit.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

17. Called-up share capital and reserves

	2017 £	2016 £
Allotted, called-up and fully-paid		
22,416,700 Ordinary A shares of £0.001 each	22,417	22,417
73,008,800 Ordinary B shares of £0.000001 each	73	73
4,574,500 Ordinary D shares of £0.000001 each	4	4
7,502,000 Ordinary F shares of £0.000001 each	8	8
2,000,000 Ordinary G shares of £0.000001 each	2	-
	<u>22,504</u>	<u>22,502</u>

The redeemable C and E shares are presented as a liability (see note 16) and accordingly are excluded from called-up share capital in the balance sheet.

Each category of Ordinary Shares ranks *pari passu* in terms of entitlement to dividend and return of capital.

The Ordinary A, B, D and F shares carry equal voting rights. The Ordinary G shares carry no voting rights.

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The foreign currency translation reserve contains the foreign currency revaluation on consolidation.

18. Cash flow statement

Reconciliation of operating loss to cash (utilised)/generated by operations:

	2017 £	2016 £
Operating (loss)/profit	(2,343,081)	(3,127,592)
Adjustment for:		
Amortisation of intangible fixed assets	1,385,208	1,465,145
Depreciation of tangible fixed assets	411,992	410,447
Loss on sale of fixed assets	8,244	5,039
Foreign exchange difference	(16,592)	-
Operating cash flow before movement in working capital	<u>(554,229)</u>	<u>(1,246,961)</u>
(Increase)/decrease in stocks	(41,678)	322,422
(Increase)/decrease in debtors	(564,687)	3,649,245
Increase/(decrease) in creditors	989,120	(789,029)
Movement in taxation	(1,337)	14,569
Cash (utilised)/generated by operations	<u>(172,811)</u>	<u>1,950,246</u>

HCS Control Systemis Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2017

19. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

Group	Land and buildings	
	2017	2016
	£	£
- within one year	142,500	152,023
- between one and five years	570,000	-
	<u>712,500</u>	<u>152,023</u>

20. Related party transactions

Maven Capital Partners UK LLP and Simmons Parallel Private LP, shareholders of the Company, each charged monitoring fees of £36,023 (2016: £36,023). During the year, interest on loan notes and C shares held by the parties each accrued £657,224 (2016: £657,224). At the year-end £6,041,430 (2016: £5,384,205) remained outstanding to both parties.

During the year the Group had fees payable of £52,966 to The McGuinness Family Company Limited, of which one of the group directors is a shareholder. At the year-end £11,380 (2016: £nil) remained outstanding.

The company has taken advantage of the exemption available under Financial Reporting Standard 102 with regard to non-disclosure of transactions between wholly owned group companies.

21. Controlling party

No individual shareholder is considered to have overall control.